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TO RUEHC/SECSTATE WASHDC 8745
INFO RUEATRS/DEPARTMENT OF TREASURY WASHDC
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RUEHBUL/AMEMBASSY KABUL 0509
RUEHLU/AMEMBASSY LUANDA 0868
RUEHBU/AMEMBASSY BUENOS AIRES 1428
RUEHBZ/AMEMBASSY BRAZZAVILLE 0038
RUEHAB/AMEMBASSY ABIDJAN 1101
RUEHLC/AMEMBASSY LIBREVILLE 1227
RUEHEK/AMEMBASSY BISHKEK 0344
RUEHBW/AMEMBASSY BELGRADE 0814
RUEHGB/AMEMBASSY BAGHDAD 0634
RUEHSB/AMEMBASSY HARARE 0430
RUEHRL/AMEMBASSY BERLIN 6617
RUEHSW/AMEMBASSY BERN 2009
RUEHBS/AMEMBASSY BRUSSELS 6353
RUEHCP/AMEMBASSY COPENHAGEN 1468
RUEHHE/AMEMBASSY HELSINKI 1300
RUEHLO/AMEMBASSY LONDON 6604
RUEHMD/AMEMBASSY MADRID 2652
RUEHMO/AMEMBASSY MOSCOW 5902
RUEHNY/AMEMBASSY OSLO 1504
RUEHOT/AMEMBASSY OTTAWA 2130
RUEHRO/AMEMBASSY ROME 8453
RUEHUL/AMEMBASSY SEOUL 1436
RUEHSM/AMEMBASSY STOCKHOLM 1535
RUEHTC/AMEMBASSY THE HAGUE 2817
RUEHKO/AMEMBASSY TOKYO 2526
RUEHVI/AMEMBASSY VIENNA 1746
RUEHBS/USEU BRUSSELS 2032

UNCLAS SECTION 01 OF 05 PARIS 002899

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SENSITIVE
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STATE FOR EB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSAA
PASS EXIM FOR CLAIMS -- EDELARIVA
PASS USDA FOR CCC -- ALEUNG/DERICKSON/KCHADWICK
PASS USAID FOR CLAIMS
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - JUNE 2007 TOUR D'HORIZON

SUMMARY

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11. (SBU) Summary: At the June 19 meeting of the Paris Club, creditors agreed in principle to accept Gabon's offer to buy back its previously rescheduled debt at a discount. Terms will be negotiated at the July meeting. This would be the first time the Paris Club has conducted a standalone market-based buyback at below face value. The U.S. can only participate in a prepayment at face value. The IMF reported that Afghanistan was on track with its reform program and should be eligible in July for additional debt relief. After deciding that Angola had demonstrated good faith on clearing its arrears, creditors authorized the Secretariat to pursue talks on resolving late interest charges. The IMF and World Bank reviewed efforts to get economic reform and poverty reduction programs back on track for the Comoros, Congo-Brazzaville, Cote d'Ivoire, and Guinea-Bissau; more progress is needed for further debt relief. The Secretariat reported on technical talks with

Argentina, which have yet to produce a solution for clearing arrears. Russia informed the Club that it was still not prepared to respond to Iraq's claim that it was demanding oil deals before granting debt relief. Creditors also discussed debt issues concerning the Kyrgyz Republic, Serbia, and Zimbabwe. End Summary.

Afghanistan

¶2. (U) The IMF reported that both the second review of Afghanistan's current Poverty Reduction and Growth Facility (PRGF) program and the Heavily Indebted Poor Countries (HIPC) program Decision Point were scheduled for Executive Board approval on July 19. The second review will trigger entry into force of the second phase debt relief under Afghanistan's 2006 Paris Club agreement. Decision Point (DP) will result in additional debt relief, as well as trigger interim HIPC relief from the international financial institutions (IFIs). Because of the routine nature of this next step of HIPC debt relief and the small number of creditors involved (Russia, Germany, and the U.S.), the Secretariat plans to coordinate the agreement electronically, rather than in a face-to-face negotiation in Paris with the Afghans. We reminded the Secretariat of our desire to complete the DP treatment in July.

¶3. (U) Russia announced that it intends to finalize its bilateral agreement to implement the July 2006 PC Agreed Minute by end-June or early July. The UK asked the IMF for a progress report on non-PC debt treatment. The IMF said the GOA had written to all non-PC creditors in April. Some of the debt has been forgiven, but the IMF will need to do some research and report back next month.

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Angola

¶4. (SBU) PC Chairman Xavier Musca reported on encouraging discussions with the Angolan Finance Minister De Moraes, who said he would present the PC with a proposal within the next two months on resolving \$2 billion in outstanding late interest (none of which is owed to the U.S.). De Moraes indicated eagerness to resolve this in order to regain access to export credit financing. The Netherlands and Sweden reported that they had not yet received arrears payments, but in the interest of time agreed to allow Musca to begin negotiating with Angola immediately based on the plan of action agreed to in March. (According to this plan, once arrears have been cleared, Angola must unilaterally pay 40-60% of late interest due, then propose a schedule for paying off the balance over time. In return, Paris Club member export credit agencies (ECAs) could, at their discretion, decide to reopen export cover. As an additional inducement, creditors could offer, on a bilateral basis, but subject to Paris Club coordination, to eliminate the "penalty" portion of late interest.)

¶5. (SBU) Japan said its ECA was under great pressure to reopen, and Denmark noted that its ECA was considering a change in its cover policy. Musca stressed the critical importance of ECAs not going back on cover prematurely, and expressed disappointment that some had. He stated his intention to speak personally to finance ministers on this issue.

Argentina

¶6. (SBU) Musca reported on a meeting with Finance Secretary Chodos who continues to seek a rescheduling of Argentina's arrears over six to seven years - a non-starter for the Paris Club in the absence of an IMF program. Musca urged Chodos to consider a unilateral plan to clear arrears over a short period of time. The Secretariat remains open to technical talks with Argentina, but is not optimistic there will be progress prior to national elections in October. There is no plan for future discussions and the next step remains with Argentina. The IMF noted that Argentina's external situation

remains strong, with reserves up to \$41 billion (compared to \$4.5 billion in Paris Club arrears).

Comoros

¶17. (U) The IMF said rising political tensions cast doubt on the viability of the economic program and could jeopardize the new PRGF, which is scheduled for Board discussion on July 25. Agreement to clear the Comoros' arrears with the African Development Bank (AfDB)

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is still needed. Under the best case scenario, the Comoros could come to the Paris Club in September. (The U.S. is not a creditor.)

Congo-Brazzaville

¶18. (SBU) IMF staff have reached a tentative agreement with the authorities on a Staff Monitored Program (SMP) covering the period April-September 2007. If Congo-B performs adequately, the third review of the currently stalled PRGF could be completed in early 2008. The Secretariat will send a letter to the authorities reiterating the importance of getting the PRGF back on track so that the Paris Club can resume interim HIPC relief.

Cote d'Ivoire

¶19. (SBU) Cote d'Ivoire must clear arrears with the World Bank and AfDB and establish an Emergency Post Conflict Arrangement (EPCA) with the IMF as first steps to normalizing relations with creditors. An EPCA covering the period April-December 2007 will be considered by the IMF's Executive Board in July. The World Bank said a new arrears clearance plan was in place, under which Cote d'Ivoire will begin to service current maturities in the second half of 2007, leading to an arrears clearance operation in February 2008. Half of the financing for the operation will be provided by Cote d'Ivoire, with the other half coming from donors. The Secretariat summarized the results of a recent data call; arrears and late interest to PC creditors of both ODA and non-ODA (NODA) total around \$3.7 billion. France is by far the largest PC creditor.

Gabon

¶10. (U) Creditors voiced no serious objection to the principle of a buyback at a discount and applauded Gabon's intention to use oil profits to improve debt management. The Secretariat reminded creditors they are free to decide independently on participation. Creditors rejected Gabon's proposal for a 33% discount, and only Spain supported the Secretariat's call for a 20% discount. Italy, the Netherlands, and the UK said their preliminary assessment pointed to a market-based discount closer to 10%, while Brazil said it would accept the consensus rate that emerges. The U.S., Canada, and Japan, said they could not participate in a discounted buyback, but could accept a prepayment at face value. Belgium and Switzerland had not yet decided on either participation or the discount rate.

¶11. (U) The U.S., Italy, and Canada reported small arrears, which the Secretariat acknowledged would have to be cleared prior to any

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early repayment operation. Germany questioned whether prepayment at face value might be more appropriate given the absence of direct market references for Gabon's debt. The World Bank noted that despite its relatively higher GDP per capita, many of Gabon's social indicators are no better than other much poorer African countries. The U.S. suggested that Gabon should consider a hybrid

buyback-prepayment approach if its goal is to maximize creditor participation. The Secretariat argued that a prepayment was not in Gabon's interest.

¶12. (U) Despite the apparent lack of consensus on how to price the debt, and an appeal by Germany and Switzerland to hold the operation until September, the Secretariat declared that the next steps would be to complete the data reconciliation process and invite Gabon to Paris in July to negotiate the terms of a buyback. France is the largest creditor, accounting for 60% of Gabon's NODA Paris Club debt.

Guinea Bissau

¶13. (U) An EPCA is scheduled to come to the executive board in late July or early August. The IMF projects a substantial financing gap in 2007 equal to 11% of GDP. External debt is now over 320% of GDP, three-quarters of which is in arrears. Closing this gap will require further donor support, which has not yet been identified. The IMF does not expect a PRGF to be in place before 2008. (Guinea Bissau is a post-HIPC Decision Point country whose previous PRGF went off track. The U.S. is not a creditor.)

Iraq

¶14. (U) The IMF said the current SBA is set to expire on September 28, 2007, and a successor arrangement would not be in place before the end of the year. Hence, as is common practice in the IMF, there will be a gap of several weeks between programs. The IMF emphasized, however, that the successor arrangement could have retroactive effect, and that Iraq's policies would be closely monitored during the intervening period. There was no reaction from creditors, nor from the Secretariat.

¶15. (SBU) Separately, in reference to the letter from Iraq to the Secretariat asserting that Russia was attempting to tie debt relief

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to oil contracts, Russia repeated the same response offered last month, that it had no official reaction at this time. The U.S. expressed its disappointment with Russia's non-response, and underscored that any attempt to tie debt relief to other concessions would be a clear violation of Paris Club principles. Russia responded by assuring creditors that it would follow the terms of the 2004 Paris Club Agreed Minute and said it would convey U.S.

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concerns to Moscow. The Secretariat noted that those concerns were shared by all creditors. The discussion of Germany's post-1990 claim on Iraq was postponed until next month at the request of Germany, which said it needed more time to look into the issue.

Kyrgyz Republic

¶16. (U) The IMF reported that the new Prime Minister of the Kyrgyz Republic had requested debt relief under the Multilateral Debt Relief Initiative (MDRI), but that the country exceeds the per-capita threshold for participation under the IMF plan. The Kyrgyz Republic was previously identified as a HIPC-eligible country based on end-2004 data, but said it was not interested in the program. While the IMF still must do an official assessment of end-2006 debt levels, preliminary analysis indicates debt ratios are now below the threshold for HIPC eligibility. If it no longer qualifies for HIPC relief, the Kyrgyz Republic would also not qualify for MDRI relief from the other IFIs. The Prime Minister subsequently instructed his government to explore the possibility of non-traditional bilateral debt relief. (The U.S. is not a creditor.)

Serbia

¶17. (U) Germany reported that Serbia and Montenegro had finally agreed to apportion their debt to Germany based on the debtor/guarantor principle rather than the final beneficiary principle. Other creditors were encouraged by this development and decided to hold off sending a letter to the newly appointed Finance Minister. (The letter, drafted by the Secretariat on behalf of Germany, Japan, the Netherlands, Sweden, and Switzerland, states that Serbia and Montenegro must sign new bilateral agreements with Paris Club creditors based on the debtor/guarantor principle rather than the final beneficiary principle, unless the creditor agrees otherwise.) Creditors will reassess the situation next month.

Zimbabwe

¶18. (U) The U.S. announced that Zimbabwe had paid \$45 million in debt after U.S. ExIm Bank threatened to take legal action. The U.S. explained that the timing was driven by the statute of limitations under U.S. law and the impending expiration of ExIm's right to seek legal remedy on the debt. Zimbabwe still owes the USG around \$125 million. There was no comment from other creditors.

STAPLETON